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IN THE

Supreme Court of the United States

October Term, 1969

Docket No. 1351

DEERING MILLIKEN, INC.,
Petitioner,

against

KORATRON COMPANY, INC.,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

SIMON H. RIFKIND
JAY H. TOPKIS
Attorneys for Petitioner
Office and P. O. Address
345 Park Avenue
New York, New York 10022

PAUL, WEISS, GOLDBERG, RIFKIND,
WHARTON & GARRISON
BERNARD OUZIEL
Of Counsel

CURTIS, MORRIS & SAFFORD
ROBERT D. SPILLE
Of Counsel

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KORATRON COMPANY, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Petitioner asks that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Ninth Circuit entered on November 5, 1969. That judgment affirmed an Order of the United States District Court for the Northern District of California which denied petitioner's motion to dismiss, transfer, or stay this action.

Opinions Below

The opinion of the Court of Appeals is not yet reported. A copy is printed herewith as Appendix A.

Neither the original order of the District Court granting the motion nor its order denying the motion on reargument is reported to date. They are, however, printed herewith as Appendices B and C, respectively.

Jurisdiction

The judgment of the Court of Appeals was entered on November 5, 1969. On January 28, 1970, Mr. Justice Douglas signed an order extending the time for filing this petition for certiorari to and including March 20, 1970. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. 1254(1) and 2101(c).

Further extension granted to April 3.

Question Presented

May a patentee, by casting a claim for patent infringement in the form of a claim under state law for interference with contractual relations, avoid the exclusive jurisdiction conferred upon the federal courts by 28 U.S.C. §1338(a)?

Statutory Provisions Involved

United States Code, Title 28:

§1338 Patents, copyrights, trademarks and unfair competition

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.

§1400 Patents and copyrights

(b) Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.

Statement of the Case

Respondent, Koratron Co., Inc. ("Koratron"), owns United States patents No. 2,974,432 (" '432") and No. 3,268,915 (" '915"), relating to so-called "permanent press" garments, and has licensed garment makers thereunder. Petitioner, Deering Milliken, Inc. ("Milliken"), manufactures certain fabrics which it sells to garment makers who, in turn, may use them to make permanent press garments.

On June 19, 1967, Koratron began this action by filing, in the Northern District of California, a complaint (see Appendix D) entitled "Complaint For Declaratory and Other Relief (Jury Trial Demanded)". Jurisdiction was

grounded solely in diversity. According to the substantive allegations of the complaint: Koratron, owning the '432 patent, has licensed 200 garment makers to practice the patent upon payment of royalties (¶7). Milliken claims that Koratron licensees who use Milliken's "Visa," "Milstar" and "Milliset" fabrics will escape their obligation to pay royalties to Koratron, although in all other respects they practice the teachings of the '432 patent (¶8). Milliken has demanded that Koratron acknowledge that the use of these fabrics falls "without the scope of the patent" (¶9); and Milliken's purpose in making this demand "is to induce the licensees not to pay royalties to Koratron under their licenses" (¶10).

Plaintiff seeks a judgment for lost royalties, punitive damages, and a declaration that the use of the Deering Milliken fabrics falls within "the scope of the patent."

On August 9, 1967, Koratron broadened its complaint with an amendment (see Appendix E) to include the '915 patent and to add the allegation that Milliken claims that "*non*-licensees of Koratron will escape being guilty of infringement of the patent by using Visa, Milstar and Milliset" (¶15 emphasis added).

On September 5, 1967, Milliken moved to dismiss or stay the action, or to transfer it to the Southern District of New York. Milliken contended a) the action is really one for contributory patent infringement; b) it is governed, in consequence, by the special patent venue statute, 28 U.S.C. §1400(b); and c) the requirements of that statute are not met in the Northern District of California since Milliken does not reside in that District and the complaint does

not claim that acts of infringement were committed there. Transfer was sought to New York on the ground that the special patent venue statute was there applicable.*

The District Court granted Milliken's motion to transfer to New York, saying (Appendix B):

> "This Court is of the opinion that at least as to the operative facts of those allegations of the amended complaint relating to the non-licensees, venue is defective in this District under 35 U.S.C. §271(b) and 28 U.S.C. §1400(b)."

Thus the District Court accepted Milliken's argument that, at least as to non-licensees, the facts alleged in the complaint as amended charged Milliken with contributory patent infringement, thereby calling into play the special patent venue statute.

The Court further held that even if it be assumed that venue were proper in California as to licensees, in the interests of justice and economy of judicial administration, transfer would be appropriate to the Southern District of New York, which had the power and venue to dispose of all the issues between the parties.

Thereupon, on Koratron's application for rehearing, and without opinion oral or written, the District Court vacated its earlier order and denied Milliken's motion. The formal order entered by the District Court held "venue well and properly laid in this court" (Appendix C)—a ruling

* Milliken had filed in New York a classical complaint for a declaratory judgment of invalidity and non-infringement of the patents the very next day after Koratron's action was filed in California.

possible only if the special patent venue statute were inapplicable.

On the District Court's certification that "there is substantial ground for difference of opinion" as to the correctness of its ruling, the United States Court of Appeals for the Ninth Circuit granted leave to appeal.

Opinion of the Court of Appeals

The Court of Appeals affirmed. Recognizing that "the gravamen of the complaint is contributory [patent] infringement," the Court nevertheless held that Koratron was free to characterize the alleged wrongful acts as common law torts (e.g. interference with contractual relations and with prospective economic advantage) and sue on them in state courts or in federal courts having diversity jurisdiction. Accordingly, the special patent venue statute did not apply and, jurisdiction being proper under the general venue statute, the order below was proper.

Thus, the Circuit Court held that the exclusive jurisdiction conferred on the federal courts over actions under the patent laws may be avoided by casting the allegations of patent infringement in traditional tort language and bringing suit in state courts.

Reason for Granting the Writ

The Court of Appeals Decided a Crucial and Novel Question of Federal Law Which Should Be Decided by This Court.

The Court of Appeals recognized that it was presented with a novel question involving the venue provisions of the patent laws—i.e. whether a party seeking to enforce patent rights may avoid the special patent venue provision (28 U.S.C. §1400 (b)) by pleading the tort of patent infringement in the disguised form of a common law tort. Answering this question in the affirmative, the Court, in effect, scraps our national patent laws—laws intended by Congress to introduce a homogenizing element into our society—and replaces them with a multitude of independent legal bodies of tort law.

The Court of Appeals candidly admits using "bifocal vision" to arrive at its decision. Apparently this has reference to its understanding of the principles set forth by this Court in a line of cases beginning in 1850 with *Wilson* v. *Sandford,* 51 U. S. (10 How.) 99, and culminating in 1926 with *Luckett* v. *Delpark,* 270 U. S. 496. However, a fair reading of the cases between *Wilson* and *Luckett* establishes no principle requiring or even justifying the Court of Appeals' decision. These cases stand as authority only for the rule that the jurisdiction of the federal courts is exclusive in cases arising under the patent laws, but not in cases where the cause of action, though incidentally involving a question of patent law, derives from contract rights recognized by the common law. Thus, jurisdiction exists in the state courts to hear actions arising out of the law of con-

tracts—e.g. such as where an action is brought on a patent license contract for royalties due, or to determine title to a patent, or for specific performance of a contract for the sale or use of a patent, or for rescission of a patent license contract—even though questions incidental to the patent laws are presented. *Wade* v. *Lawder*, 165 U. S. 624 (1897); *Luckett* v. *Delpark, supra; Wilson* v. *Sandford, supra; Pratt* v. *Paris Gas Light & Coke Co.*, 168 U. S. 255 (1897).

But no case cited by the Court of Appeals would sustain jurisdiction in a state court over an action for contributory patent infringement called by another name.

Hurn v. *Oursler*, 289 U. S. 238 (1933), decided shortly after *Luckett* v. *Delpark, supra*, casts clarifying light on the Court of Appeals' misconception of this Court's teachings. In *Hurn*, the Trial Court had before it two alleged causes of action: one for defendant's infringement of plaintiff's copyrighted play, and a second for unfair competition under state law by means of the same use of plaintiff's material. Holding for defendant on the merits of the infringement claim, the District Court dismissed the unfair competition claim for lack of jurisdiction over this matter of state law—diversity being absent. This Court added that the correct result was reached by erroneous reasoning—the claim of unfair competition should also have been dismissed on the merits, for

> "• • • the claims of infringement and of unfair competition • • • are not separate causes of action, but different grounds asserted in support of the same cause of action." (page 247)

So here, Koratron does not have a separate cause of action for violations of state law—its tort theory is but a different ground for the same cause of action for contributory patent infringement.

Conclusion

The Court of Appeals has not followed this Court's teachings in the line of cases between *Wilson* and *Lucket*. Instead, it has erroneously extended the law developed in those cases to the point where our federal patent law is threatened with disintegration into 50 different state bodies of law.

For the foregoing reasons, the writ of certiorari should be granted.

Dated: New York, New York
March 20, 1970

Respectfully submitted,

SIMON H. RIFKIND
JAY H. TOPKIS
Attorneys for Petitioner
Office and P. O. Address
345 Park Avenue
New York, New York 10022

PAUL, WEISS, GOLDBERG, RIFKIND,
WHARTON & GARRISON
BERNARD OUZIEL
Of Counsel

CURTIS, MORRIS & SAFFORD
ROBERT D. SPILLE
Of Counsel

Appendix A

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

KORATRON COMPANY, INC., a corporation,
Plaintiff-Appellee,
vs.
DEERING MILLIKEN, INC., a corporation,
Defendant-Appellant.
No. 23,169

[November 5, 1969]

Appeal From an Interlocutory Order Denying Motion To Dismiss, To Transfer, or To Stay the Action

Before: HAMLIN, ELY, and HUFSTEDLER, Circuit Judges

HUFSTEDLER, Circuit Judge:

Pursuant to leave granted by this court (28 U.S.C. § 1292(b)), appellant Deering Milliken, Inc. ("Milliken"), appeals from an interlocutory order of the District Court for the Northern District of California denying Milliken's motions to dismiss, to transfer, or to stay the action filed against it by Koratron Company, Inc. ("Koratron").

Milliken contends that venue was improperly laid because the gravamen of Koratron's action is patent infringement for which an action may be brought only "in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business" (28 U.S.C. § 1400(b)) and that the Northern District of California, in which the suit was brought, is not such a district. Koratron replies that its suit is not one for patent infringement, or even an action arising under the patent laws; rather, it is an action founded on a common law tort, and federal jurisdiction rests solely upon diversity of citizenship. Alternatively, Koratron argues that even if the suit is for patent infringement, the

record supports the laying of venue in the Northern District of California.

Koratron holds two process patents dealing with the manufacture of permanent press garments. It has licensed some 200 garment makers to practice the patents upon payment of royalties. Milliken manufactures fabrics ("Visa," "Milstar," and "Milliset"), which are sold to garment makers who, in turn, may use the fabrics to make permanent press garments.

In its original complaint, Koratron alleged the following controversy between it and Milliken: Milliken claims that by using its Visa, Milstar, and Milliset fabrics a garment manufacturer can in all other respects follow one of the Koratron process patents without falling within the scope of that patent, which claim Koratron denies; Milliken threatens to tell Koratron's licensees that they can avoid paying royalties to Koratron by using Milliken's fabrics, unless Koratron acknowledges in writing that the use of Milliken's fabrics is outside the scope of the patent; Milliken had already advised one or more of Koratron's licensees to that effect; and Milliken's purpose in these actions was to induce the licensees not to pay royalties to Koratron. Koratron prayed for judgment declaring, *inter alia*, that the scope of its patent includes the making of garments from the described Milliken fabrics, that Milliken be enjoined from asserting to the contrary, and that it be awarded compensatory damages for its loss of royalties and $5,000,000 punitive damages.

Thereafter Koratron filed an amendment to its complaint to include an after-acquired improvement patent and to add averments that Milliken also claims "that *non*-licensees of Koratron will escape being guilty of infringement of the patent by using Visa, Milstar or Milliset." (Emphasis added.)

Milliken moved (1) to dismiss the action, (2) to stay it pending adjudication of an action filed in the Southern District of New York by Milliken against Koratron to declare Koratron's patents invalid or, alternatively, not infringed, or (3) to transfer it to the Southern District of New York. Milliken's suit against Koratron was filed one day after Koratron filed this action against Milliken. After the District Court entered its order denying Milliken's motion, Milliken abandoned that part of its motion seeking a dismissal in order to preserve the discovery thus far

completed. The New York action has been stayed pending disposition of this appeal.

The central issue is the proper characterization of Koratron's complaint. If it is a "civil action for patent infringement" the narrow venue provisions of section 1400(b) apply; if, on the other hand, the action is either a common law tort claim, triable in the federal courts solely by reason of diversity, or a patent suit, other than an action for infringement, the parties agree that venue is proper in the Northern District of California under the more liberal provisions of section 1391(c). Koratron asserts that its complaint states a good cause of action under California law for interference with contract and for interference with prospective economic advantage. (*E.g., Collins v. Vickter Manor, Inc.* (1957) 47 Cal. 2d 875, 306 P. 2d 783; *Uptown Enterprises v. Strand* (1961) 195 Cal. App. 2d 45, 15 Cal. Rptr. 486.) Milliken argues, however, that the substance of Koratron's complaint is contributory infringement under 35 U.S.C. § 271(b): "Whoever actively induces infringement of a patent shall be liable as an infringer." Since the substance and not the form of the complaint is controlling, Milliken argues, the suit should be construed as one for patent infringement.

The appeal presents a novel issue, for the parties have cited no case, and we have found none, in which a patent holder has attempted to avoid the venue provisions of section 1400(b) by waiving its action for contributory infringement and proceeding solely under an interference theory.

Judge Kaufman faced a similar problem in *Bradford Novelty Co. v. Manheim* (S.D.N.Y. 1957) 156 F. Supp. 489, but there the plaintiff had pleaded both an infringement action and a common law action for unfair competition. Defendant moved to dismiss for lack of venue and established that the provisions of section 1400(b) were not met. Plaintiff contended, however, that "its action against Eppy for unfair competition is independently founded on diversity of citizenship and is, therefore, properly brought in this district, § 1400 being inapplicable to common law actions for unfair competition." Because venue was proper for one of the causes of action, plaintiff argued, the court can properly hear the related claim of infringement. Judge Kaufman was not convinced:

Appendix A

> "[T]he gravamen of the present complaint is patent infringement; unfair competition, if a separate cause of action at all, being a subsidiary issue dependent on the prior determination of the action for patent infringement. The Supreme Court has gone so far as to conclude that claims of infringement and unfair competition are not separate causes of action at all but are different grounds asserted in support of the same action. Hurn v. Oursler, 1933, 289 U.S. 238, 247, 53 S. Ct. 586, 77 L. Ed. 1148. Since unfair competition can almost always be charged in a patent infringement action, if plaintiff were to prevail in its argument, it would be a simple matter of pleading for a party to evade the venue limitation imposed by § 1400." (156 F. Supp. at 492.)

Just as unfair competition can almost always be charged in a patent infringement action, so too can interference almost always be charged in a contributory infringement action. Because Koratron would have to prove the basic elements of a contributory infringement claim in order to succeed in its tort claim, it must realistically be admitted that the gravamen of the complaint is contributory infringement. The only real difference between the instant case and *Bradford Novelty* is that Koratron has gone one step further than did the plaintiff in *Bradford* by omitting altogether the infringement action from its complaint. Although this is "a simple matter of pleading," we hold that it is sufficient to make section 1400 inapplicable.

Our conclusion is compelled by a line of Supreme Court cases beginning in 1850 with the decision of *Wilson v. Sandford*, 51 U.S. (10 How.) 99, and culminating in 1926 with *Luckett v. Delpark*, 270 U.S. 496. In each of the cases in the line the central question was jurisdictional: Was the action one "arising under" the patent laws and thus triable exclusively in the federal courts under the statutory predecessor to 28 U.S.C. § 1338(a).[1] The Court consistently said "No," despite the fact that in each instance the scope or the validity of a patent, or both, was directly

[1]Section 1338(a): "The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases."

in issue. According to these decisions, characterization of the action as a patent or nonpatent suit within the meaning of section 1338(a) turns on the form in which the plaintiff has chosen to cast his complaint: "[T]he plaintiff is absolute master of what jurisdiction he will appeal to . . . . Jurisdiction generally depends on the case made and relief demanded by the plaintiff . . . ." (*Healy v. Sea Gull Specialty Co.* (1915) 237 U.S. 479, 480; *see also The Fair v. Kohler Die & Specialty Co.* (1913) 228 U.S. 22, 25.)

The plaintiffs in *Luckett* and *Wilson*, although adding infringement counts, chose to frame their actions as ones in contract and to seek contract relief primarily. In *American Well Works Co. v. Layne & Bowler Co.* (1916) 241 U.S. 257, the action sounded in tort, although plaintiff could just as easily have sued for infringement. The plaintiff initiated the action in state court, charging that it had a valid patent on a certain pump, that defendants asserted that plaintiff's patent infringed defendants' pump patent, and that defendants were suing and threatening to sue plaintiff's licensees for infringement. Defendants removed the case to federal court as an action arising under the patent laws. The Supreme Court reversed, holding that the case did not arise under the patent laws. "Of course," said the Court, "the question depends upon plaintiff's declaration." (241 U.S. at 258.) The Court later observed:

> "What makes the defendants' act a wrong is its manifest tendency to injure the plaintiff's business and the wrong is the same whatever the means by which it is accomplished. But whether it is wrong or not depends upon the law of the State where the act is done, not upon the patent law, and therefore the suit arises under the law of the State. A suit arises under the law that creates the cause of action. The fact that the justification may involve the validity and infringement of a patent is no more material to the question under what law the suit is brought, than it would be in an action of contract." (241 U.S. at 260.)

Interference with contract and interference with prospective economic advantage are state causes of action. When the subject matter of the contract interfered with is a patent or the prospective economic advantage relates to a patent, questions of patent

law will often arise in the controversy. But that fact does not make the action one arising under the patent laws. (*See also Pratt v. Paris Gas Light & Coke Co.* (1897) 168 U.S. 255, 259; *Lear Siegler, Inc. v. Adkins* (9th Cir. 1964) 330 F.2d 595, 600.)

Koratron intended to plead its case as a common law action. It strained out all patent infringement language from its pleading. It did not seek treble damages and attorneys' fees available in a patent infringement suit; it sought compensatory and lump sum punitive damages appropriate to a common law claim. The complaint, as amended, stated a cause of action for common law relief.[2] The facts stated also would have sustained a claim for patent infringement had Koratron elected that remedy, but it did not do so, and it cannot be compelled to do so. (*See Henry v. A. B. Dick Co.* (1912) 224 U.S. 1, 15.)[3]

Milliken suggests that Koratron did not have an election of remedies because the subject matter has been substantively preempted by federal patent law, citing by way of assumed analogy *Sears, Roebuck & Co. v. Stiffel Co.* (1964) 376 U.S. 225 and *Compco Corp. v. Day-Brite Lighting, Inc.* (1964) 376 U.S. 234. The analogy is inappropriate. *Sears* and *Compco* are not characterization cases, neither purports to invalidate state law that is not inconsistent with substantive federal law (*cf. Cable Vision, Inc. v. KUTV, Inc.* (9th Cir. 1964) 353 F.2d 348, *cert. denied sub nom. Klix Corp. v. Cable Vision, Inc.* (1965) 379 U.S. 989), and neither case concerns the choice of forum here involved.

We hold that Koratron's action does not arise under the patent laws and *a fortiori* it is not a patent infringement suit subject to the narrow venue provisions of section 1400(b).[4]

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[2]The factual allegations may be similar to those in Geneva Furniture Mfg. Co. v. S. Karpen & Bros. (1915) 238 U.S. 254, but there the plaintiff specifically alleged that the suit was one arising under the patent laws.

[3]The antitrust law made in *Henry* is no longer followed, but its discussion of the jurisdictional question is still good law, as illustrated by its citation in Pan American Petroleum Corp. v. Superior Court (1961) 366 U.S. 656, 663.

[4]"The phrase 'civil action for patent infringement,' appearing in . . . § 1400(b), is clear and explicit; hence, it must be given its literal meaning. That phrase is not to be equated with such language as 'civil action involving patent infringement' or 'civil action relating to patent infringe-

Appendix A

The Supreme Court's decision in *Schnell v. Peter Eckrich & Sons, Inc.* (1961) 365 U.S. 260; *Fourco Glass Co. v. Transmirra Prods. Corp.* (1957) 353 U.S. 222 and *Stonite Prods. Co. v. Melvin Lloyd Co.* (1942) 315 U.S. 561 do not support a contrary result. In each of those cases the claim for relief pleaded was patent infringement, and in each, the Court held that the narrow venue provisions of section 1400(b), or its predecessor statute, applied to the exclusion of the general venue statute. An integral part of the Court's rationale in those cases is that section 1400(b) expresses a federal policy limiting venue in patent infringement cases to prevent infringers from being subjected to suit in districts where the defense of the action would entail an unnecessarily oppressive burden. However strong that policy may be once the action has been characterized as an infringement action, the Court has never applied it to limit the manner in which a plaintiff can plead his cause. The Court's reading of section 1400(b) cannot be wholly reconciled with its reading of the "arising under" clause of section 1338(a), for the effect of the latter often, although not always, is to broaden the number of districts to which a plaintiff has initial access. But so long as the Supreme Court distinguishes the two situations, we are obliged to follow that bifocal vision.

The order denying Milliken's motion is affirmed, and the cause is remanded to the District Court for further proceedings.

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ment' or 'civil action arising under any Act of Congress relating to patents.'

"The phrase 'civil action for patent infringement,' appearing in . . . § 1400(b), applies only and specially to the specific species of patent litigation known as a patent infringement action. . . . That phrase does not apply to other classes of actions whose subject-matter may nevertheless involve or relate to patents." De Luxe Game Corp. v. Wonder Prods. Co. (S.D.N.Y. 1957) 157 F. Supp. 696, 699-700.

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Appendix B

IN THE UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

[TITLE OMITTED]

Order Transferring This Action to the Southern District of New York

[Filed March 18, 1968]

The motions of defendant Deering Milliken, Inc., pursuant to Rule 12(b) of the Federal Rules of Civil Procedure (1) for an order dismissing this action for failure to state a claim upon which relief can be granted, or (2) for an order dismissing this action for improper venue, or, in the alternative (3) for an order under 28 U.S.C. § 1406 (a) transferring this action to the United States District Court for the Southern District of New York, or (4) staying this action pending the outcome of a co-pending action between the same parties in the Southern District of New York entitled *Deering Milliken, Inc.* v. *Koratron Company, Inc.*, Doc. No. 67 C. 2383, having come on regularly for hearing November 13, 1967, and the parties having fully briefed and argued their respective positions, and the Court having fully considered the written and oral arguments of the parties,

It is hereby ordered that defendant's motion to have this action transferred to the United States District Court for the Southern District of New York under 28 U.S.C. § 1406

(a) is granted. This Court is of the opinion that at least as to the operative facts of those allegations of the amended complaint relating to the non-licensees, venue is defective in this District under 35 U.S.C. § 271(b) and 28 U.S.C. § 1400(b). See *Bradford Novelty Co.* v. *Maneim*, 156 F. Supp. 489, at 492 (S.D. N.Y. 1957). Assuming arguendo that plaintiff states a claim of which this Court has jurisdiction and for which the venue is proper as to the licensees, we are of the opinion that this action should be nonetheless transferred to the Southern District of New York in the interest of justice and in the exercise of this Court's discretion with regard to declaratory judgment actions. In so holding, this Court is persuaded by the fact that the New York court has the power and the venue to dispose of all the issues between the parties: claims as to both licensees and non-licensees, issues of validity, scope and infringement. Economy of judicial administration dictates that the plenary action take preference over the less-inclusive suit.

Accordingly, it is Ordered that this action be and hereby is transferred to the District Court for the Southern District of New York for all further proceedings. This disposition makes it unnecessary to rule on defendant's other motions.

Dated: March 15, 1968

ROBERT F. PECKHAM
United States District Judge

Appendix C

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

Civil Action No. 47273

KORATRON COMPANY, INC., a corporation,

Plaintiff,

vs.

DEERING MILLIKEN, INC., a corporation,

Defendant.

[Filed July 2, 1968]

Defendant Deering Milliken, Inc. having heretofore, on or about September 5, 1967, filed its motions (a) for an order dismissing this action for failure to state a claim upon which relief can be granted, (b) for an order dismissing this action for improper venue, or, in the alternative, (c) for an order under 28 U.S.C. § 1406(a) transferring this action to the United States District Court for the Southern District of New York, or (d) for an order staying this action pending the outcome of a co-pending action between the same parties in the Southern District of New York entitled *Deering Milliken, Inc.* v. *Koratron Company, Inc.*, Doc. No. 67-C-2383;

And said motions having heretofore been briefed and orally argued before the Court, and the Court having heretofore, on March 15, 1968, made an "Order on Defendant's Motions" ordering the action transferred to the United States District Court for the Southern District of New York;

And the Court thereafter, on April 12, 1968, upon the timely application of plaintiff, having granted a rehearing, and said motions of defendant having been further briefed and orally argued before the Court, and the defendant having submitted on the rehearing that this Court's prior order transferring the action to the Southern District of New York could be supported or sustained under 28 U.S.C. § 1404(a);

And the Court upon further and careful consideration having concluded that each and all of the motions should be denied, that venue is well and properly laid in this Court, and that the litigation and controversies between the parties should proceed and be disposed of herein,

Now, THEREFORE, IT IS HEREBY ORDERED as follows:

1. That the order of the Court of March 15, 1968 granting the motion to transfer the action and transferring the action to the United States District Court for the Southern District of New York should be, and it is hereby, VACATED;

2. That defendant's motion to dismiss the action for failure to state a claim upon which relief can be granted should be, and it is hereby, DENIED;

Appendix C

3. That defendant's motion to dismiss this action for improper venue or, in the alternative, to transfer it to the United States District Court for the Southern District of New York, should be, and it is hereby, DENIED;

4. That defendant's motion to stay this action pending the outcome of said action between the same parties pending in the United States District Court for the Southern District of New York entitled *Deering Milliken, Inc.* v. *Koratron Company, Inc.*, Doc. No. 67-C-2383, should be and it hereby, DENIED, and

5. This order involves a controlling question of law as to whether venue is well and properly laid in this District, a question as to which there is substantial ground for difference of opinion; an immediate appeal from the order may materially advance the ultimate termination of the litigation and accordingly this Court is of the opinion that an appeal should be permitted pursuant to 28 U.S.C. § 1292(b).

Dated: July 1, 1968

ROBERT F. PECKHAM
United States District Judge

NOT APPROVED AS TO FORM:

MOSES LASKY
For Plaintiff Koratron Company, Inc.

Appendix D

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

[TITLE OMITTED]

Original Complaint

[Filed June 19, 1967]

COMPLAINT FOR DECLARATORY AND OTHER RELIEF
(Jury Trial Demanded)

Plaintiff KORATRON COMPANY, INC. (hereafter called "Koratron") complains of defendant DEERING-MILLIKEN, INC. (hereafter called "Milliken") and alleges as follows:

1. Plaintiff Koratron is a corporation organized and existing under the laws of the State of California and has its principal place of business in and is a citizen of that state.

2. Defendant Milliken is a corporation organized and existing under the laws of the State of Delaware, is a citizen of that state, and has its principal place of business in a state other than the State of California.

3. The matter in controversy exceeds, exclusive of interest and costs, the sum of $10,000.

4. Koratron is the owner of the entire right, title and interest in and to U. S. Letters Patent No. 2,974,432

issued March 14, 1961, for a process of forming press-free crease retained garments, hereafter referred to as the patent. A true copy of said patent is attached as Exhibit 1.

5. Milliken is a manufacturer of textile products and as such is manufacturing certain fabrics sold under the names or designations of VISA, MILSTAR and MILLISET.

6. Said fabrics are used by manufacturers of garments to make press-free crease retained garments, and such is the only substantial use for said fabrics.

7. Koratron has licensed upward of 200 garment makers in the United States to practice the invention defined in the patent, hereafter referred to as the invention. In consideration of said licenses, each licensee has obligated itself to pay to Koratron certain royalties based upon the selling price of garments made in accordance with the invention, and said royalties exceed $4,000,000 per year. An exemplar of said license is attached hereto as Exhibit 2. Milliken knows of all said licenses and of the identity of the licensees.

8. An actual controversy has arisen and exists between Koratron and Milliken in the following respects:

Milliken claims and asserts that the scope of the patent is such that by using said fabrics referred to above as VISA, MILSTAR or MILLISET, although in all other respects practicing the invention, Koratron's patent licensees will escape the obligation to Koratron under the licenses to

pay the royalties upon garments prescribed by the license agreement. Koratron asserts and claims that the scope of the patent is such that the use of said fabrics VISA, MILSTAR or MILLISET does not immunize its patent licensees from the obligation under their respective license agreements with Koratron to pay the prescribed royalty.

9. Milliken has demanded of Koratron that it acknowledge in writing that the making of garments in the manner defined by the claims of the patent from VISA, MILSTAR and MILLISET fabrics falls without the scope of the patent and threatens that unless Koratron make such acknowledgment Milliken will publicly advise Koratron's licensees that they may use VISA, MILSTAR or MILLISET fabrics, or any of them, in the making of garments in the manner defined by the claims of the patent without incurring any obligation to Koratron and threatens to induce Koratron's licensees to breach their contracts with Koratron. On information and belief, plaintiff alleges that Milliken has already advised one or more of Koratron's licensees to said effect.

10. Milliken's purpose in making the demand on Koratron and in threatening to advise and in advising Koratron's licensees, all as alleged above, is to induce the licensees not to pay royalties to Koratron under their licenses.

11. Plaintiff has no adequate remedy at law.

12. On information and belief, plaintiff alleges that Milliken is the largest non-publicly owned corporation in

the world and makes annual sales upward of ½ billion dollars. In committing the conduct alleged above, Milliken is guilty of oppression.

WHEREFORE, plaintiff prays that the Court:

1. Make and enter a judgment declaring the rights and obligations of plaintiff Koratron and defendant Milliken, declaring in said judgment

(a) that the scope of the patent includes the making of garments from VISA, MILSTAR or MILLISET fabrics;

(b) that Milliken's claim and assertion to the contrary is incorrect and erroneous.

2. That the Court issue its injunction, prohibitory and mandatory, as follows:

(a) Prohibiting Milliken, its officers, agents, servants, employees and attorneys, and all persons in active concert or participation with them, from further announcing, stating or uttering that the scope of said U. S. Letters Patent No. 2,974,432 does not include the use by garment makers of VISA, MILSTAR or MILLISET fabrics, or words of similar effect.

(b) Ordering and directing Milliken to announce publicly and to advise individually each licensee of Koratron that the use of VISA, MILSTAR or MILLISET fabrics does fall within the scope of said patent.

3. That the Court determine how much royalties plaintiff has lost by reason of Milliken's conduct up to the time of entry of judgment and how much damage Koratron has sustained by virtue of Milliken's acts and give judgment to Koratron and against Milliken accordingly, together with $5,000,000 punitive damages, plus its costs of suit, and for such other and further relief as may be meet and proper.

MOSES LASKY
BROBECK, PHLEGER & HARRISON

LEONARD S. LYON, JR.
LYON & LYON

By MOSES LASKY
Moses Lasky

Attorneys for Plaintiff

Appendix D

EXHIBITS ANNEXED TO THE ORIGINAL COMPLAINT

(Omitted)

Exhibit 1 is the U. S. Letters Patent No. 2,974,432 issued March 14, 1961.

Exhibit 2 is an exemplar of the license Koratron issued to garment makers in the United States.

Appendix E

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

[TITLE OMITTED]

Amendment to Complaint

Pursuant to F.R.C.P. Rule 15(a) and before any responsive pleading to the complaint has been filed, plaintiff hereby amends its Complaint as of course, by adding to the complaint paragraphs 13, 14 and 15, as follows:

13. The licenses by Koratron to garment makers referred to in paragraph 7, et seq. above in this complaint included a license to practice the invention disclosed and claimed in any letters patent that might be granted on application for U. S. Letters Patent Ser. No. 271,107, and the inventions disclosed and claimed in Letters Patent No. 2,974,432 ("the patent") and in any patent granted on said Application Ser. No. 271,107 were collectively designated in the licenses as the "process" and are hereafter referred to as "the process". On August 30, 1966, U. S. Letters Patent No. 3,268,915 was granted on said Application Ser. No. 271,107 for a process of manufacturing press-free garments with retained creases, and Koratron is the owner of the entire right, title and interest therein. Said Patent No. 3,268,915 is a patent for improvements of the invention described and claimed in the patent (No. 2,974,-432), is directed generally to the disclosures in the patent,

and is hereinafter called the "improvement patent". A copy of the improvement patent is attached hereto as Exhibit 3.

14. Fabrics the use of which by garment makers comes within the scope of the patent also come within the scope of the improvement patent if the invention disclosed and claimed in the improvement patent is in all other respects practiced. As used in paragraphs 8 and 9 above of this complaint, and in paragraph 15 below, the term "the patent" includes, severally and collectively, U. S. Letters Patent No. 2,974,432 and No. 3,268,915 and the process.

15. Milliken's claims as to the scope of Koratron's patent include the claim that non-licensees of Koratron will escape being guilty of infringement of the patent by using Visa, Milstar or Milliset. The controversy between the parties alleged in paragraph 8 above of this complaint and Milliken's threats of advice and its giving advice referred to in paragraph 9 above of this complaint include that claim of Milliken.

MOSES LASKY
BROBECK, PHLEGER & HARRISON

LEONARD S. LYON, JR.
LYON & LYON

By MOSES LASKY
Moses Lasky

Attorneys for Plaintiff
Koratron Company, Inc.

E3

Appendix E

EXHIBIT ANNEXED TO AMENDMENT TO COMPLAINT

(Omitted)

Exhibit 3 is the U. S. Letters Patent No. 3,268,915 issued August 30, 1966.

In the Supreme Court of the United States

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JOHN F. DAVIS, CLERK

OCTOBER TERM, 1969

No. 1351

DEERING MILLIKEN, INC.,
Petitioner,

vs.

KORATRON COMPANY, INC.,
Respondent.

Brief for Respondent in Opposition to Petition for Writ of Certiorari

MOSES LASKY
111 Sutter Street
San Francisco, California 94104
Attorney for respondent

BROBECK, PHLEGER & HARRISON
RICHARD C. WYDICK
111 Sutter Street
San Francisco, California 94104
Of Counsel

SORG PRINTING COMPANY OF CALIFORNIA, 348 FIRST STREET, SAN FRANCISCO 94105

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In the Supreme Court of the United States

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Brief for Respondent in Opposition to Petition for Writ of Certiorari

OPINIONS BELOW

The opinion of the Court of Appeals is reported in 418 F.2d 1314 and appears as Appendix A to the petition. The District Court wrote no opinion.

JURISDICTION

The District Court's jurisdiction was based on diversity of citizenship, 28 U.S.C. § 1332. The Court of Appeals had jurisdiction under 28 U.S.C. § 1292(b). This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

QUESTION PRESENTED

Petitioner states that the question is whether a patentee may avoid the exclusive jurisdiction conferred upon the federal courts by 28 U.S.C. § 1338(a) by casting a claim for infringement in the form of a claim under state law for interference with contractual relations. No such question, no question at all of *juris-*

diction, was presented to or decided by the court below. None can be present because the case is in a federal court.

The case came to the court below on an interlocutory appeal under 28 U.S.C. § 1292(b), and the only question on which that appeal was allowed was one of *venue.* In the words of the District Court's certifying order,

> "This order involves a controlling question of law as to whether venue is well and properly laid in this district. . . ." (Petition, p. C 3)

The venue question is this: where a plaintiff alleges a common law cause of action for interference with business expectations recognized by state law and not in conflict with any federal law, suing in a federal court on diversity of citizenship, may a defendant tear the case from plaintiff and denominate it a patent infringement case on the theory that plaintiff might have asserted such a case had it chosen to do so, and thereby oust the general venue statute in favor of the special patent infringement venue statute?

STATEMENT OF THE CASE

Respondent ("Koratron") owns patents covering a process for making "permanent press" garments and has licensed the process to over 200 garment makers in the United States. Petitioner does not make garments and is not charged with using Koratron's process. It is a textile mill making fabrics which are suitable for use in manufacturing permanent press garments.

Koratron sued petitioner in a federal court, solely on diversity of citizenship, alleging that petitioner was publicly advising garment makers that they can avoid obligation to Koratron by making their permanent press garments from certain of petitioner's fabrics although in all other respects practicing the Koratron process. The gist of the complaint was the common law cause of action for inducing Koratron licensees to breach their contracts with Koratron by not paying the agreed royalty. (Pet. App. D.)

In an amendment to its complaint, Koratron included an 8 line paragraph to the effect that petitioner's same conduct was

also affecting non-licensees. The gist of this claim was the common law tort, recognized in California, of interference with Koratron's business expectancies, viz., the expectancy of obtaining licensees. (Petition, App. E.)

Petitioner moved to dismiss for lack of venue. It conceded that the amended complaint did not purport to charge patent infringement but argued that the facts referred to in the amendment *would* support a claim for inducement of patent infringement under 35 U.S.C. § 271(b) and was therefore to be deemed a suit for infringement, and consequently that venue was governed by 28 U.S.C. § 1400(b), and not by the general venue statute, 28 U.S.C. § 1391(a), under which venue was well laid.

The motion was denied, an interlocutory appeal was taken under 28 U.S.C. § 1292(b), and the Court of Appeals affirmed.

DISCUSSION

The writ should be denied for the following reasons.

1. The petition states as the question presented one relating to jurisdiction. No such question came before the court below (see pp. 1, 2, *supra*). This Court does not grant certiorari to review questions not presented below. *Federal Trade Comm. v. Traveler's Health Ass'n.*, 362 U.S. 293, 299, fn. 4 (1960).

2. No conflict among the circuits is claimed, nor is there any conflict with any decision of this Court. On the contrary, the decision below is in accord with 120 years of decisions of this Court.

Koratron's original complaint presented a claim under state law of which the federal court had jurisdiction solely by reason of diversity. The complaint did not charge petitioner with patent infringement or inducing infringement, and the facts alleged could not possibly support any such claim. The charge was that petitioner was inducing licensees not to pay royalties. A licensee who fails to pay the agreed royalty breaches his contract, but he is not a patent infringer, for the license authorizes him to use the invention, but an infringer is one who *"without authority* makes, uses or sells any patented invention. . . ." 35 U.S.C. § 271(a). The

fact that the subject of a contract is a patent, and that determination of whether defendant was inducing breach of contract would involve determination of the scope of the patent, does not make the case one arising under the patent laws within 28 U.S.C. § 1338. A case is not a "patent case" because it may involve "patent questions". *Wilson v. Sanford*, 51 U.S. (10 How.) 99 (1850); *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255 (1897); *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473, 478 (1912); *Geneva Furniture Mfg. Co. v. S. Karpen & Bros.*, 238 U.S. 254 (1915); *American Well Works Co. v. Layne and Bowler Co.*, 241 U.S. 257, 259-60 (1916); *Luckett v. Delpark*, 270 U.S. 496 (1926). In the *Geneva Furniture* case the second count of the complaint charged that the defendants had induced the plaintiff's licensees to breach their patent license agreements, exactly the sort of claim Koratron made here.

Petitioner seized on the amendment to the complaint to sustain its motion. The amendment added that petitioner's "claims as to the scope of Koratron's patent include the claim that non-licensees of Koratron will escape being guilty of infringement of the patent. . . ." (Petition, App. E 2.) That grievance is that petitioner's conduct lessened Koratron's chances of signing licenses with these garment makers. The legal foundation of the claim is the common law of interference with prospective business advantages. Adjudication of that claim is wholly ancillary to the claim for inducing breach of contract by licensees. In order to decide whether petitioner has induced breach of the licenses, a court must decide whether use of the fabrics falls within the scope of a valid patent, and once a court has decided that, it will have decided most of the facts essential to the added claim of interference with the expectancy of licensing non-licensees. On precisely this basis of judicial economy, this Court has established the doctrine of pendent jurisdiction, *Hurn v. Oursler*, 289 U.S. 238 (1933), *United Mine Workers v. Gibbs*, 383 U.S. 715 (1966). Koratron could delete the amendment and proceed on the original complaint; if it did so and obtained judgment, that judgment would be conclusive against petitioner on the basic facts in any later action

involving the claim relative to non-licensees, under elementary rules of collateral estoppel. *Commissioner v. Sunnen,* 333 U.S. 591, 597-8 (1948); *Vandereer v. Erie Malleable Iron Co.,* 238 F.2d 510, 514 (6 Cir. 1956), *cert. den.* 353 U.S. 937 (1957). Such circuity and multiplicity of action are against the spirit of contemporary procedure.*

The contention that the claim added by amendment must be treated as a patent infringement claim is contrary to law long settled by this Court. Even assuming that the facts pleaded could support a claim of inducing patent infringement,** Koratron did not choose to charge patent infringement. It chose to invoke state law. It was free to invoke one body of law instead of another, for a plaintiff is the "master of his claim," *Pan American Corp. v. Superior Court,* 366 U.S. 656, 662-63 (1961), a rule that has been frequently stated in a patent context, as in *Luckett v. Delpark,* 270 U.S. 496, 508-9 (1926):

> " '[T]he plaintiff is absolute master of what jurisdiction he will appeal to. . . . Jurisdiction generally depends upon the case made and relief demanded by the plaintiff.' "

To the same effect, *Henry v. A.B. Dick Co.,* 224 U.S. 1, 14-15 (1912), and *The Fair v. Kohler Die Co.,* 228 U.S. 22, 25 (1913), where this Court said:

> "Of course the party who brings the suit is master to decide what law he will rely upon and therefore does determine whether he will bring a 'suit arising under' the patent or other laws of the United States by his declaration or bill."

**United Mine Workers v. Gibbs,* supra at 724: "Under the Rules, the impulse is toward entertaining the broadest possible scope of action consistent with fairness to the parties; joinder of claims, parties and remedies is strongly encouraged."

***In fact they do not. The amended complaint did not allege that petitioner's conduct had yet resulted in inducing anyone to infringe. Inducement of infringement is a part of the doctrine of contributory infringement, and *Aro Mfg. Co. v. Convertible Top Co.,* 365 U.S. 336, 341 (1961) confirms that for there to be "contributory infringement there must *first be a direct infringement.*" *Fromberg v. Thornhill,* 315 F.2d 407, 411 (5th Cir. 1963). No claim for inducement can be maintained unless the conduct has in fact culminated in a direct infringement.

The assertion in the petition that "federal patent law is threatened with disintegration into 50 different state bodies of law" is baseless hyperbole. It ignores the observation of the court below that this is *not* a case where state law would give substantive rights that federal law would deny. Here any rights under state law exist only if, under federal law, the scope of Koratron's patent is as Koratron claims. By appealing to state law Koratron may have to establish more than had it appealed to federal law; it cannot prevail by establishing less.

A further observation is in order. As the opinion below states, one day after Koratron filed this suit petitioner sued Koratron in a federal court in New York raising the same issues. That case has been transferred under 28 U.S.C. § 1407 to the District Court where this action is pending by the Multidistrict Litigation Panel, *In Re Multidistrict Patent and Antitrust Litigation Involving Koratron*, 302 F. Supp. 239 (1969). It is now being processed along with this case. Petitioner's continued effort to press its motion serves no purpose but delay.

CONCLUSION

We respectfully submit that the petition should be denied.

Dated: San Francisco, California, April 21, 1970.

MOSES LASKY
Attorney for respondent
Koratron Company, Inc.

BROBECK, PHLEGER & HARRISON
RICHARD C. WYDICK
Of Counsel.

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JOHN F. DAVIS, CLERK

IN THE

Supreme Court of the United States

October Term, 1969

Docket No. 1351

DEERING MILLIKEN, INC.,
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against

KORATRON COMPANY, INC.,
Respondent.

REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

SIMON H. RIFKIND
JAY H. TOPKIS
Attorneys for Petitioner
Office and P. O. Address
345 Park Avenue
New York, New York 10022

PAUL, WEISS, GOLDBERG, RIFKIND,
WHARTON & GARRISON
BERNARD OUZIEL
Of Counsel

CURTIS, MORRIS & SAFFORD
ROBERT D. SPILLE
Of Counsel

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REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

In another attempt to mask the true nature of this action, respondent now contends that "no question at all of *jurisdiction* was presented to or decided by the court below." According to respondent "the only question • • • was one of *venue*." And since jurisdiction, according to respondent, was not argued below, it may not be considered on this petition. This is, we submit, sophistic nonsense. We have at all times argued that this is, in reality, an action for patent infringement—where the federal courts alone have jurisdiction and where the special patent venue statute applies. True, the final question here is one of

venue: New York or California? But the critical threshold question is of jurisdiction. May the exclusive jurisdiction of the federal courts over patent infringement actions be ousted by casting an infringement claim in language of common law tort?

Certiorari should here be granted to preserve and protect the exclusive jurisdiction of the federal courts over the operation of a homogeneous patent system. The alternative is to permit the establishment by states, counties, cities, towns and justices of the peace of their doubtless individualized notions of proper patent systems.

Dated: New York, New York
May 1, 1970

Respectfully submitted,

SIMON H. RIFKIND
JAY H. TOPKIS
Attorneys for Petitioner
Office and P. O. Address
345 Park Avenue
New York, New York 10022

PAUL, WEISS, GOLDBERG, RIFKIND,
WHARTON & GARRISON
BERNARD OUZIEL
Of Counsel

CURTIS, MORRIS & SAFFORD
ROBERT D. SPILLE
Of Counsel